

ERA

Economics Research Associates

Scope 2: Final Report

**Arena District / Eastside
Community Redevelopment Plan**

Submitted to

**CERA
Bexar County
San Antonio Spurs
City of San Antonio**

Submitted by:

**Economics Research Associates
SWA Group
Laura Thompson Associates**

April 11, 2003

ERA Project Number: 14677

20 E. Jackson Boulevard Suite 1200

Chicago IL 60604

312.427.3855 FAX 312.427.3660 www.econres.com

Los Angeles San Francisco San Diego New York

Chicago Washington DC London Dallas

0029

Introduction

Economics Research Associates (ERA), Laura Thompson Associates, and the SWA Group were engaged by Bexar County, the San Antonio Spurs, the Community Economic Revitalization Agency (CERA), and the City of San Antonio (COSA) to create a development plan and revitalization strategy for neighborhoods on the Eastside of San Antonio surrounding the SBC Center. The team's approach in this assignment (called Scope 2) covers the following four elements:

1. Assessment of study area characteristics, including strengths and weaknesses
2. Definition of economic development needs and market potentials
3. Creation of a revitalization strategy for the study area
4. Formation of an aggressive implementation strategy to move the program forward

The approach followed by ERA, SWA, and Laura Thompson Associates (the Team) will dovetail with two separate research and strategy development effort that focus on:

1. A market and strategy plan for the SBC Center / County Fairgrounds site (called Scope 1).
2. An overall transportation infrastructure plan for the Eastside

Strategy recommendations generated by the on-site assessment (Scope 1) will be incorporated in this study as well. Importantly, both Scope 1 and Scope 2 rely on an extensive community involvement process, which was led by Laura Thompson Associates and Ximenes Associates. This process included multiple public meetings and presentations, as well as focus groups and interviews with local stakeholders. The appendix to this report includes a draft of the public involvement report.

Study Area Definition

The Eastside is generally defined as the area bounded by Interstate 35 to the north, Loop 410 to the east, Interstate 10 to the south, and US Route 281 to the west. The study area for this analysis follows a more precise neighborhood definition highlighted on a map on the next page. The study area excludes several neighborhoods west of Monumental Road, primarily an area bordered by Monumental Road to the east, Sherman Street to the north, US 281 to the west, and Iowa Street to the south. This area was not included in ERA's study by the City of San Antonio (COSA) Planning Department because it had already been assessed in prior studies. The map on the next page highlights five key focal points that are important to this study:

1. The Commercial / Residential Core
2. New Light Village
3. The SBC Arena / County Fair Grounds
4. Salado Creek
5. The North East Quadrant

Background information regarding each focal point is discussed as follows.

ERA

A detailed map of the SBC Arena neighborhood in Houston, Texas. The map features several key areas highlighted in pink: Fort Sam Houston (top left), Salado Creek (center left), Downtown (bottom center), Commercial Residential Core (bottom right), New Light Village (far right), and SBC Arena (center right). Major roads like I-67E, Loop 410, and various local streets are shown. A scale bar indicates distances up to 1 mile, and a north arrow is present in the top right corner. Numerous street names are labeled throughout the map.

Area #1: The Commercial / Residential Core

Running along New Braunfels Avenue from Commerce Street through Houston Street, this area supports the key retail centers that serve the local population. Key retailers include HEB (grocery) and Walgreen's (drugstore), both of which are located at the intersection of Houston Street and New Braunfels Avenue. The commercial core serves as the primary commercial for residential neighborhoods on the Eastside. Site assessments identified several key aspects regarding this area:

- Closure of New Braunfels Avenue through Fort Sam Houston appears to have generated negative effects on retailers in the neighborhood, stemming from reduced traffic flows. This perception was suggested to ERA by officials from CERA and the City. Perhaps more importantly, it was also suggested that the New Braunfels Avenue gate at Fort Sam Houston may never be reopened.
- Although New Braunfels Avenue is improved with an attractive divided median area on either side of Houston Street, this improvement ends one block north and south of Houston Street.
- Existing retail space at this intersection is generally older, offering a mix of convenience and discount retail options, as well as fast food. Significantly, while the local grocery store (HEB) is not viewed as an asset, the area supports a recently built Walgreen's drug store.
- This area is buffered to the west by the city cemeteries, which form a substantial barrier between the retail core and potential customers to the west.
- The neighborhood analysis identified a significant number of vacant lots and smaller homes, which may limit the amount of retail space that is supportable.
- The Union Pacific Railroad mainline traverses the west and northern edges of the study area; a UP intermodal yard operates on the north side of this area, east and west of New Braunfels Avenue.

Area #2: New Light Village / Springview

This area includes the new Hope VI residential project with about 500 planned new affordable and market rate homes called Springview, as well as an apartment project that is under renovation. The first phase of Springview will include 184 homes, of which about 56 have been completed; the new homes are priced at around \$85,000. A new residential subdivision, called Coliseum Oaks, was completed in 1994. This area includes about ten acres of vacant land south of the arena across Commerce Street that would be suitable for residential or commercial development. Key anchors for this area include:

- St. Philips College
- The Barbara Jordan Center
- The Dora Miller Community Center

Real Estate Market Evaluations

In considering redevelopment potentials for the Eastside, a primary concern is the extent of market demand for retail, residential and commercial property, including office space, industrial space, and recreation. The extent of opportunities available for commercial space is significant in that they can create important sources of employment for local residents. This discussion begins with an overview of development trends across metro San Antonio, before moving on to further discussion of property development opportunities.

Urban Growth Patterns

In discussions with local real estate and economic development officials, ERA noted the following broad conclusions regarding directions of growth and trends regarding new development:

- Industrial expansion has been occurring on the north and northwest side of San Antonio, supported in part by gradual expansion of the Kelly USA program. While the Eastside also supports considerable industrial development, our field assessments confirmed a lack of planned industrial areas and notable conflicts with proximate residential uses.
- Retail expansion has occurred most strongly on the north side of the city, particularly along the northern stretch of Loop 1604 where several major shopping centers are being built. Not surprisingly, this area is also home to the highest concentrations of wealth in the city. ERA also learned about development of a Walmart Super center just beyond the study area, at the intersection of Rigby Avenue and Loop 410.
- Residential expansion has been taking place on the outer northwest and west portions of the city. The key constraint against further growth to the north is the recharge zone for the Edwards Aquifer, which may encourage more residential development to the west and east, particularly along the interstate corridor to Austin.
- Office development has tended to follow I-10 and US 281 to the north, with several projects also being developed along Loop 1604. The Eastside study area does not have an identifiable office market.
- The downtown area continues to serve the tourism industry with a mix of hotel and retail, supported by the growing Riverwalk attraction and the expanded convention center. City officials continue to push for development of a convention center hotel as well.
- City officials have debated smart growth initiatives and revised their Unified Development Code to encourage smart growth, creating an important alternative to conventional residential development.

Real Estate Market Opportunities

ERA evaluated markets for residential development, retail development, industrial space, hotel development, and commercial office space development. The evaluations are used to discern the relative balance between demand and supply in the San Antonio market. Once overall trends have been highlighted, ERA can then estimate opportunities for development that could be captured by the Eastside study area.

Residential Development

ERA extracted detailed information from the US Census for the noted census tracts of the Eastside Study Area to evaluate the condition of the existing housing stock. Analysis focused on the median age of housing in the study area, compared to the city, state, and country, as well as changes in the supply of housing, levels of owner versus renter occupancy, and more detailed trends regarding housing stock by year built.

The table below highlights overall housing unit supply trends over the noted 10-year period, showing that while the city has added more than 6,700 new units per year on average, the Study Area lost housing units at an average rate of about 100 per year. ERA believes that a portion of this decline can be explained by the demolition and redevelopment of public housing in the area, including the current Hope 6 project southwest of the arena site.

Total Housing Unit Supply Trends, 1989 and 1999

Market	1990	2000	Change	Per Year
COSA	365,414	433,122	67,708	6,771
Study Area	13,475	12,308	-1,167	-117

Source: US Census

The following table compares the percentages of owner and renter occupied housing units for the city and the Study Area, as well as an estimate of the number of vacant units in each market. The table first shows that the city and Study Area have comparable trends for owner versus renter occupancy, which is significant. In general homeowners are more to take an active interest in their community compared to renters. The table also indicates that the Study Area has a more significant vacancy issue (13% vacancy) compared to the city as a whole, with a vacancy rate of about 6%.

2000 Owner / Renter Occupied
Trends

Market	COSA	Study Area
Owner occupied	58.1%	57.1%
Renter occupied	41.9%	42.9%
% of Units Vacant	6.4%	12.9%

Source: US Census

The following table highlights the percentages of housing stock by the time period built for COSA and the Study Area. The table shows that about 16% of the COSA housing stock has been built since 1990, compared to about 5% of total housing for the Study Area. Significantly, the table shows that the 1980 to 1989 time frame saw construction of 22% of the city's housing stock, compared to about 5% of the study area's housing stock for the same period. The study area saw its most substantial boost in housing development during the 1950's when 23% of the current total supply was built. Also notable is that while only 6% of the city's housing is older than 1939, over 22% of the study area's housing falls below this date.

Housing Units by Year Built, COSA and Study Area

Time Period	COSA	Study Area
1999 to March 2000	2.5%	0.5%
Built 1995 to 1998	7.7%	2.4%
Built 1990 to 1994	6.1%	1.6%
Built 1980 to 1989	22.0%	5.1%
Built 1970 to 1979	19.9%	9.7%
Built 1960 to 1969	14.9%	17.8%
Built 1950 to 1959	13.2%	23.4%
Built 1940 to 1949	6.9%	17.6%
Built 1939 or earlier	6.6%	22.0%

Source: US Census

In more simple terms, the US Census indicated the following median ages of housing stock for the noted markets:

- COSA – 1974
- Study Area – 1952
- Texas - 1977
- National Average - 1971

The above median ages reinforce the notion that the existing housing stock in the Study Area is older and in poorer condition compared to the city as a whole. It is also clear that the Study Area has not benefited from the significant growth trend that the city has followed for the past 20 years. At the same time, the Study Area possesses a significant number of older historic homes that could be renovated, and benefits from a location immediately proximate to downtown. The noted Hope VI project has allowed developers to build one of the first new subdivisions in the area, creating the potential for more interest in the Eastside.

The Eastside is clearly not attracting its share of new residential demand from the rapidly growing region. Even so, ERA notes that other public agencies, including the San Antonio Development Agency and the San Antonio Alternative Housing Corporation, have been active in redeveloping housing in the city. These agencies, along with Bexar County, have also developed programs to make housing more affordable for low to middle income residents. The implementation section will expand on this market discussion highlighting priority projects and programs to create additional opportunities for infill residential development.

Retail Development

In the past decade, increased emphasis has been placed on potential retail opportunities in America's inner cities. In general, the retail market in inner cities is both large and concentrated. These markets are often populated with consumers who represent significant aggregate spending power. According to a recent report by the Initiative for a Competitive Inner City, in 1998 there were 7.7 million households in America's inner cities with retail spending power in excess of \$85 billion per year. For a number of reasons, however, these markets have been noticeably underserved during the past few decades. Prospective retailers typically cite poor infrastructure, inadequately trained workforces, and crime as the main reasons for not investing in inner city locations. Recently, however, retailers have started looking at inner city markets in a different light. Many are beginning to see inner cities as the last large domestic frontier for expansion.

The situation on the Eastside appears to match the national experience, with an existing captive market served by older quality retail space which does not encourage repeat visitation, and inevitably pushes local residents beyond their neighborhood to make retail purchases. It should be noted that if the defined study area was consistent with national trends for retail space per person (about 22 square feet per person) a potential inventory of more than 700,000 square feet would be supported. It is clear that the vast majority of this inventory is outside the study area.

Discussion of retail trends for the Eastside begins with assessment of population trends for the community. The following table details US Census data for total households in each census tract and an estimate of year 2000 median household incomes, which was derived from an analysis of 1989 to 1999 changes in median income for each tract. The following table highlights a market of about 10,900 households with an estimated average household income of \$22,607 in the year 2000. The number of households used in this table is based on a 100% count, rather than a sample; as such, the totals may differ slightly from other household totals indicated in this report.

Household and Median HH Income
Trends, Eastside Study Area,
Year 2000

Tract	Total Households	Median Income
Census Tract 1301	1,273	\$17,289
Census Tract 1302	608	\$23,349
Census Tract 1303	1,102	\$20,809
Census Tract 1304	2,352	\$26,286
Census Tract 1305	1,230	\$19,015
Census Tract 1306	1,601	\$20,517
Census Tract 1308	1,376	\$29,647
Census Tract 1309	1,362	\$23,944
Total / Average	10,904	\$22,607

Source: US Census and ERA

Retail demand estimates for the Eastside study area are based on a comparison of total households with estimates of median household income (both shown above). This approach estimates total gross income and then net income after taxes, the latter of which can be used to derive estimates of potential retail demand. Based on statistics generated by the Bureau of Labor

Statistics Consumer Expenditure Survey, which tracks consumer expenditures by income level as well as metropolitan area, gross potential income of about \$245 million was converted to net (disposable) income of about \$210 million (see the following table). A conversion factor of 85% was used to estimate net income after taxes. The conversion factor was derived from statistics developed the Consumer Expenditure Survey. This disposable income would be available to support rent payments, mortgages, car payments, food, and broader discretionary retail spending, which is the focus of this assessment.

Retail Sales Potentials, Eastside

Category	2000 Estimate
Total Households	10,904
Average Income per Household	\$22,607
Total Gross Potential Income	\$246,511,394
Disposable Income	\$209,534,685

Source: US Census and ERA

Assessment of income spent on retail purchases is based again on the Consumer Expenditure Survey. ERA examined survey results based on income levels (the \$20,000 to \$29,999 bracket). Several categories of retail expenditures were considered, including:

- **Eating & Drinking Places** - This category basically consists of eating and drinking establishments. Fast food restaurants, bars and pubs, and other dining establishments are included.
- **Food & Grocery** - This category consists of grocery stores and food stores. All sizes of grocery stores are included as well as fish and meat markets, bakeries, specialty food stores, and convenience food stores.
- **General Retail** - This category consists of stores that sell a wide selection of personal and household goods, ranging from appliances to apparel. General stores, dollar stores, and variety stores are included in this category.
- **Entertainment and Other** - This category includes expenditures for theaters, bookstores, video rental shops, and other entertainment activities.

The following table highlights key expenditure and retail categories and the estimated trade area percentage range of income spent on each category.

Estimate of Retail Sales Potentials, Eastside Trade Area

Retail Category	% of Income	Estimated Potential Retail Sales
Grocery / Convenience	17.1%	\$35,909,900
Entertainment	4.3%	\$9,067,650
General Retail	11.8%	\$24,696,930
Restaurant	5.6%	\$11,640,400
Total	38.8%	\$81,314,880

Source: Bureau of Labor Statistics and ERA

The above estimates of retail sales potentials are converted into supportable inventories of retail space, as shown in the following table. The conversion is based on ERA experience regarding achievable store sales per square foot, which are applied to estimated potential retail sales to arrive at supportable inventories. The table below highlights a potential supportable inventory of about 250,000 square feet of retail space. The total includes almost 80,000 square feet of potential grocery and convenience store space, as well as about 100,000 square feet of general retail space, and about 40,000 square feet of restaurant space.

Estimate of Supportable Retail Inventories,
Eastside Trade Area

Retail Category	Target Sales /Sq. Foot	Estimated Supportable Inventory (Sq. Ft.)
Grocery / Convenience	450	79,800
Entertainment	300	30,230
General Retail	250	98,790
Restaurant	300	38,800
Total		247,620

Source: ERA

The current local market includes several retailers at the intersection of Houston Street and New Braunfels Avenue, including Walgreens, HEB, a discount strip retail center, and several fast food operations. While these retail centers cover perhaps 120,000 square feet of space, ERA was informed of significant local dissatisfaction with current retail options (particularly the grocery store), suggesting that a share of the market is choosing to spend outside the trade area rather than to shop locally.

Opportunities

One established economic premise for retail development in America is that most retailers perform best when located in a cluster with other stores. Americans prefer to accomplish multiple objectives during a single shopping excursion. From a market perspective, therefore, a development that has a “critical mass” of tenants is likely to do a better job of attracting customers than isolated stores. According to our analysis of market data and economic trends, development of new retail space that is unable to meet this criterion is not feasible in the study area under current market conditions. The success of such development forms attest to the importance of the “agglomeration effect” created when substantial mixes of tenants are housed in single developments.

In considering the noted strengths and weaknesses associated with the Eastside, ERA emphasizes several key points. Most importantly, the study area will never be able to compete with Target, Walmart, and Kohl’s for basic apparel and home appliance purchases. While smaller retailers have found ways to survive in proximity to a mass retailer, it is generally because of superior service or the offering of a specialized product or service that a Walmart does not offer. The demand estimates shown in the above table suggest to ERA the following conclusions regarding retail space development:

1. Current retailers active in the market generally do not appear to be serving the market the best possible extent. Retailers outside the trade area, such as the Walmart at Loop 410, are likely absorbing a share of current demand.
2. The University of Texas at San Antonio recently completed a retail trade assessment for this sub market, and came to similar conclusions regarding potential demand for new retail space.
3. ERA notes the recent closure of 23 Albertson's grocery stores in the market. HEB bought and reopened only four of these stores, suggesting that other grocers may be taking a harder look at the market, given the number of vacant stores now potentially available.
4. While residential densities favor a retail location at Commerce Street and New Braunfels Avenue, there are no vacant sites available in this area. There are vacant and under-utilized properties along Commerce Street south of the SBC Arena, which could be appropriate for retail use.

While trade area spending and the lack of competitive retail supply would suggest that there is sufficient demand to support construction of new convenience and neighborhood oriented retail space, ERA notes that current rent levels may not yet be high enough to justify new construction. To illustrate this, the appendix includes a preliminary financial analysis for a proposed 60,000-square-foot retail center development in the study area. The analysis includes assumptions and estimates regarding:

- Rental rates
- Construction costs
- Operating expenses
- Financing costs

The analysis suggests that incentives may need to be provided to allow a retail project to meet financial requirements. These incentives include:

- A public sector equity commitment to reduce the amount of total equity required by the developer
- Public investments for site preparation and land acquisition, reducing the developer's costs
- Below market financing, to reduce the developer's interest expenses and risk

The implementation section highlights a range of programs and options that could be used to facilitate the development of new retail space in the market.

Industrial Development

According to the Society of Industrial and Office Realtors (SIOR) the San Antonio suburban industrial market has seen considerable growth since 1997, adding about 12.7 million square feet of inventory in five years. A significant increment of new inventory was accounted for by the privatization of about 6.4 million square feet of industrial space at the former Kelly Air Force Base, now called Kelly USA. Over this period, vacancy rates have also trended upward, with vacant space at Kelly contributing significantly to the calculation. At the same time, Kelly is evolving into a center for aerospace related industrial development, which is a planned cornerstone of local economic development efforts.

Industrial Development Trends, San Antonio
Suburban Market

	1997	1999	2001
Inventory	46,242,970	55,867,970	58,988,344
Vacancy Rate	7.6%	8.3%	13.4%
Net Absorption	344,689	7,332,874	36,263

Source: SIOR

Overall, the local market is largely made up of warehouse and distribution buildings, comprising about 65% of total inventories. Manufacturing space covers a smaller 10% of total inventories. Within these broad statistics, it is important to note the physical differences between categories of industrial buildings. In general, modern warehouse buildings are built with the following attributes:

- Clear ceiling heights up to 30 feet
- Sprinkler systems and office space build outs of up to 10% of total floor area
- Larger truck courts and related staging areas

Flex / technology / service buildings tend to support different markets, with the following attributes:

- Clear ceiling heights of up to 24 feet
- Office space build-outs of 30% to 100%
- Higher quality sprinkler, fire safety, and related physical systems
- Greater parking requirements for cars as opposed to semi-trailers

In addition to the above property types, which tend to be built on a speculative basis by developers, industrial markets include a large quantity of owner occupied manufacturing and warehouse buildings, which are typically built to the specific needs of the user. While the Eastside includes a number of warehouse and flex buildings that have been built on a speculative basis by developers such as Prologis (a developer of industrial and distribution space), the study area also includes a number of owner-occupied light industrial and service buildings as well.

There are two specific economic development initiatives that the city has pursued with success. In one case, local officials have developed an aggressive technology and R&D effort, which has

translated in to demand for about 25% of total industrial inventories in the city. A portion of this inventory is concentrated on the West Side of San Antonio at the Texas Research Park. This development began in 1984 with the creation of the foundation, which was entrusted with developing the project. The city provided roughly 1,200 acres of vacant land; the first research building was built in 1990, following completion of infrastructure improvements. Since 1990, the foundation has added 2 multi-tenant buildings and several residences, which are used by UT students and others. Total land development has consumed 175 out of 1200 acres, for an annual absorption rate of about 17.5 acres per year, which supports an inventory of about 300,000 square feet of R&D space.

In a second and more recent economic development effort, city and county officials helped attract a new Toyota truck manufacturing plant to the south side of San Antonio. When operational in 2006, the new \$480-million-dollar plant will have the capacity to make about 150,000 vehicles per year, and employ up to 2,000 workers. Perhaps more importantly, the program will generate interest among tier 1 and 2 automotive parts suppliers to locate in the market as well.

The study area's industrial development makeup is quite mixed, including older single tenant / owner occupied buildings along Commerce Street and Houston Street, east of the Coca Cola Bottling plant, as well as more recently built industrial and flex space built along SBC Parkway. One new project in this second area is being planned by Prologis, and is called the Coliseum Distribution Center. Company officials indicated that they have several distribution buildings in the 100,000-square-foot range planned for this site. The area southeast of the Prologis development contains several vacant industrial buildings, as well as a large vehicle maintenance facility for a local utility provider. Interviews with local industrial development officials pointed to the following considerations regarding the status of the Eastside Market:

- There are a limited number of larger vacant tracts with appropriate zoning that are suitable for new planned industrial projects – property assembly may be required.
- Conflicts between adjacent residential and industrial uses are a concern throughout the study area.
- Although the study area has excellent interstate access, the area is also divided by a number of active rail lines and at-grade rail crossings.
- There are a number of warehouse and light industrial buildings located east of Coca Cola Avenue between Commerce and Houston Streets. Many of these buildings are empty or underutilized.
- Assessments also indicated the presence of several brownfield sites that will require remediation.

Hotel Development

ERA considered the strength of the local hotel market, which is a key supporter of the area's expanded convention and tourist industry, centered around the Gonzales Convention Center, now with about 1.3 million square feet of exhibition and meeting space. The following table highlights current occupancy and Average Daily Rate (ADR) statistics for the hotel market. The table shows that overall occupancies have trended downward slightly, with an ADR in the \$85 to \$86-dollar-range.

San Antonio Hotel Market Trends

	1999	2000	2001
Occupancy	66.2%	66.4%	64.8%
Avg. Daily rate	\$85.56	\$86.77	\$86.49

Source: Texas A & M Real Estate Center

The following table highlights more detailed trends for noted sub markets, beginning with the downtown area, which recorded occupancy of 67% in 2001, with an ADR of about \$110. Achievable ADR's in the north airport market are lower, at \$78, with a slightly higher occupancy level, compared to downtown. ERA notes that a share of convention delegates may choose to stay by the airport at a lower rate, benefiting from the airport's close proximity to downtown.

Hotel Sub-Market Trends, 2001

Location	Occupancy %	Average Daily Rate
Central Business District	67%	\$109.55
North-Airport	70%	\$78.88
Northeast	58%	\$50.49
Northwest-Fiesta	61%	\$69.13
South San Antonio	56%	\$59.68

Source: Texas A & M Real Estate Center

During the 1990's, the total number of hotels in San Antonio increased from 123 in 1985 to 231 in 1999, growing at an annualized rate of almost 5%, representing an average of close to 8 additional hotels per year. During the same period, the City of San Antonio's hotel room inventory increased from almost 16,000 to 26,000, representing an average of 740 additional rooms a year. The downtown area is to gain a new Holiday Inn Express and Suites, as well as other potential projects:

- Budget Suites of San Antonio –with 360 rooms
- Renovation of the Emily Morgan Hotel is getting a new multi-million dollar renovation.
- Renovation of the Karotkin Building, a 70,000-square-foot downtown building built in 1900 for conversion to a new luxury hotel called the Watermark Hotel and Spa.
- Proposals to build a convention center headquarters hotel

Currently, the Eastside supports a minor hotel market, with construction of a new Holiday Inn Express in St. Paul Square, as well as several budget oriented hotels along I-10 at WW White and Commerce Streets. While there is uncertainty regarding the level of near-term growth in hotel demand for San Antonio, caused in part by the current economic slowdown, as well as an expectation for reduced convention bookings and fewer city-wide events over the next two years, ERA would anticipate eventual hotel development in the Study Area as a mid-term opportunity.

Office Development Overview

ERA evaluated trends for the local office market, as reported by SIOR and shown in the table below. According to this source, the local market has seen considerable growth in suburban areas of the city, with development of about 300,000 square feet of Class A space and about 1.6 million square feet of Class B space. Since 1997, vacancy rates for both categories of space have trended upward, with 2001 levels of 10% and 14% respectively, as shown below.

Suburban Office Market Demand Trends

	1997	2001	Growth
Class A Suburban	4,994,191	5,298,908	304,717
Class B Suburban	6,657,099	8,255,129	1,598,030
Class A Vacancy	4%	10%	
Class B Vacancy	9.6%	14%	

Source: SIOR

The above table does not include downtown office space trends. According to SIOR and the Real Estate center at Texas A&M, the downtown office market saw limited new construction of space between 1997 and 2001, with an overall inventory of about 4.8 million square feet. Key suburban office markets include the north central area, adjacent to the San Antonio International Airport along Loop 410 and US 280, which contains the largest share of suburban space. In addition, the local medical office market continues to grow, with expansions at the University of Texas Health Sciences Center and the South Texas Medical Center.

Importantly, the Eastside study area currently does not offer any significant office space. While proximity to downtown would appear to be a logical opportunity, the office market appears to more strongly favor suburban north central and northwest sub markets. At the same time, ERA understands that there is a reported need for 10,000 to 20,000 square feet of medical clinic or medical office space in the target area – which apparently cannot be found.

Absorption and Development Conclusions

The San Antonio metro area has followed a significant growth curve over the past 20 years, with significant new commercial and residential development occurring at numerous locations around the metro area. It is important to emphasize the extent of this growth to help place future opportunities for the Eastside in perspective. The following discussion highlights average annual growth trends for key real estate development categories, including industrial, residential, and retail development.

Industrial Development – According to local sources, the San Antonio Industrial market has experienced between 400,000 and 900,000 square feet of annual net absorption, with an average of about 500,000 square feet of net absorption per year since 1993.

Residential Development – According to the US Census, between 1990 and 2000 the City of San Antonio gained an average of about 6,700 new housing units per year. As noted before, over the same period, the Study Area saw a net decrease in the number of housing units.

Retail Development – Between 1993 and 1999, San Antonio experienced median annual development of about 870,000 square feet of new retail space per year, with overall net absorption following a slightly higher trend. As with other development, new retail projects have tended to follow population and income growth to the north.

Hotel Development - Between 1985 and 1999 San Antonio saw development of an average of 740 hotel rooms per year.

Office Development – Between 1993 and 1999, the local office market generated median annual absorption of about 475,000 square feet per year, with development concentrated in the downtown area, as well as several north suburban sub-markets.

Population Growth – Previously in this report, ERA noted that San Antonio added roughly 20,800 residents per year between 1990 and 2000.

As the above highlights suggest, there is a significant market for commercial and residential development active in the region. It is also clear that, over the past ten years, the Eastside was able to capture only a minor recognizable increment of this demand, which is surprising given its close-in location.

Study Area Implications

ERA considered the extent of the potential market defined above that could realistically be captured by the Eastside over the next ten years. The approach is driven by the underlying assumption that, given the area's immediate proximity to downtown, with excellent interstate access (particularly to I-35), that it should logically begin to benefit from a share of economic growth occurring in the region, particularly if efforts are undertaken to accomplish two tasks:

1. Rebuild existing transportation infrastructure

2. Improve storm water management

As the above tasks begin to occur on the Eastside, it is likely that the process of assembling property can begin, allowing significant revitalization to occur. At this juncture in the assessment, ERA anticipates that the following real estate development goals should be achievable over the next 10 to 15 years:

- New Home Construction – 25 to 50 homes per year
- New Light Industrial Development – about 600,000 square feet of new space
- New Retail, Medical office, and Business Services Space – Opportunity for up to 200,000 square feet over the next ten years.